

Utah Fund of Funds

Frequently Asked Questions

Q. What is the “Utah Fund of Funds?”

A. The “Utah Fund of Funds” is a financial intermediary that will act to provide greater stability in Utah venture capital markets and provide increased access to equity capital by Utah start-up companies. The establishment of the Fund of Funds is authorized by recently passed legislation “Utah Venture Capital Enhancement Act.” The legislation provides \$100 million in contingent tax credits to assist the Fund of Funds in seeking new capital investment. The Fund’s goals are to provide more capital into the Utah venture industry by recruiting new venture funds from outside Utah to establish a working presence in Utah, investing in already established Utah venture capital funds, and assisting Utah start-up companies find necessary equity capital.

Q. How will the “tax credits” be used to capitalize the Fund of Funds?

A. The \$100 million in contingent tax credits will be used as a backstop for investments in the Fund of Funds. Essentially, the tax credits will be used as leverage to underwrite a return to investors in the Fund of Funds thus permitting the Fund of Funds to seek capital from entities whose risk profile would normally not consider investments in venture funds. The Utah Capital Investment Board will establish investment products and the conditions upon which the contingent tax credit will accrue to investors. The hope and goal is to repay investors from the Fund’s long-term performance and not to utilize the contingent tax credits.

Q. How large of a fund will be raised?

A. The actual dollar amount has not yet been determined because the Board has not yet selected an investment product to be offered to investors. As discussions with potential investors progress the investment vehicle will become clearer as will the total amount of dollars that will be raised. It is likely that the Fund of Funds will be capitalized in a range from \$100 million to \$200 million.

Q. Will any of the fund dollars be directly invested in Utah start-up companies?

A. It is the intent of the legislation that market forces guide the investments made in start-up companies. The legislation states that the “Utah Fund of Funds” shall invest its funds in private venture capital funds and not make direct investments in individual businesses, thus allowing seasoned investment professionals to make prudent investment decisions. The reliance upon market forces will prohibit the Fund of Funds from becoming the investor of last resort to marginal investment opportunities.

Q. How can Utah start-up companies access funds from the Fund of Funds?

A. By working with local venture capital firms and venture accelerators such as MountainWest Venture Group, Technology to Market (T2M), Utah Small Business Development Centers, Utah Valley Entrepreneurial Forum, and Wayne Brown Institute, etc.

Q. What will be the process for venture capital firms to solicit investment funds from the Fund of Funds?

A. The actual process has not been determined yet. It is likely that the Corporation will issue an RFP to interested venture firms during the summer of 2005.

Q. What is the organizational structure for the fund?

A. There are three different entities or groups with different responsibilities.

- 1) Utah Capital Investment Board: This governmental Board will establish investment product(s) available to designated investors of the Fund of Funds; establish policies and procedures related to the contingent tax credits; and establish relationships with

- designated purchasers of the contingent tax credits. The Board also has an oversight role related to activities of the Utah Capital Investment Corporation
- 2) Utah Capital Investment Corporation and Board: The Corporation's responsibilities are to establish the Utah Fund of Funds, locate and hire a fund manager, receive investment funds from investors arranged by the Utah Capital Investment Board, and invest funds per criteria set by the Utah Capital Investment Board.
 - 3) Utah Fund of Funds: This entity will be funded with the investment dollars secured from the Utah Capital Investment Board. The Fund will make investments in venture capital firms as selected by the Board of the Corporation.

Q. What is the amount of the fund dollars that must be invested in non-Utah domiciled venture funds?

A. The intent of the legislation is to increase the number of venture firms shopping Utah deals. The legislation gives first preference to out-of-state and newly created VC firms domiciled in Utah. Once three new firms have been induced to participate in Utah deal flow, Utah-based venture firms existing prior to July 1, 2002 can receive funding from the Utah Fund of Funds on an equal footing with out-of-state venture firms and new Utah-based VC firms created after July 1, 2002.

Q. Must all the funds provided from the Utah Fund of Funds be invested in Utah start-up companies?

A. The goal is to enhance the supply of venture capital to Utah start-up companies. Market forces will determine which start-up companies best compete for funding based on well-established venture investment criteria. Venture capital firms soliciting investment funds from the Utah Fund of Funds will be required to demonstrate "best efforts" to shop, qualify and invest in Utah deals. Best efforts may be demonstrated by agreeing to open a branch office in Utah, establishing formal relationships with existing Utah based venture firms, regular participation in Utah deal forums, etc. The legislation provides that the Utah Fund of Funds shall give priority to investments in private seed and venture capital partnerships and entities that have demonstrated a commitment to the state as evidenced by:

- 1) the investments they have made in Utah-based entities,
- 2) the correspondent relationships they have established with Utah-based venture capital funds, or
- 3) the commitment they have made to expand the reach of expertise within the state by adding additional investment in areas of expertise.

Q. Will the Utah Fund of Funds only fund early stage and seed firms?

A. No, the board is not only interested in early stage and seed firms and may target later stage and mezzanine financing firms.

Q. When is the earliest that the Utah Fund of Funds can be established?

A. The earliest time for establishment of the fund is July 2004 because the tax credits are not legally available until that time.

Q. How soon after the Utah Fund of Funds is established will it start making investments in venture capital firms?

A. It is likely that the Fund will begin placing investments in the fall of 2005 and continue making investments through the spring of 2007.

Q. How can I get a copy of the "Utah Venture Capital Enhancement Act?"

A. Please visit: http://goed.utah.gov/fund_of_funds